

MILBERG LLP

Jonathan M. Landers

Matthew Gluck

Brad N. Friedman

Sanford P. Dumain

Jennifer L. Young

One Pennsylvania Plaza

48th Floor

New York, NY 10119

Telephone: (212) 594-5300

Facsimile: (212) 868-1229

SEEGER WEISS LLP

Stephen A. Weiss

Christopher M. Van de Kieft

Parvin Aminolroaya

One William Street

New York, NY 10004

Telephone: (212) 584-0700

Facsimile: (212) 584-0799

*Attorneys for Linda Berger*

UNITED STATES BANKRUPTCY COURT  
SOUTHERN DISTRICT OF NEW YORK

SECURITIES INVESTOR PROTECTION  
CORPORATION,

Plaintiff,

v.

BERNARD L. MADOFF INVESTMENT  
SECURITIES LLC,

Defendant.

Adv. Pro. No. 08-01789 (BRL)

SIPA Liquidation

(Substantively Consolidated)

In re

BERNARD L. MADOFF,

Debtor.

**OBJECTION TO TRUSTEE'S DETERMINATION OF CLAIM**

Linda Berger, in her individual capacity and as successor to a one-third interest in the account of Doris Glantz (Acct. No. 1ZW054), deceased, hereby objects to the Notice of Trustee's Determination of Claim dated October 19, 2009 ("Determination Letter"), attached as Exhibit A. The Trustee's Determination Letter pertains to a contingent customer claim, filed pursuant to Section 502(h) of the Bankruptcy Code. Mrs. Berger objects to the Trustee's Determination Letter, as described herein, to preserve all rights, claims, and defenses should any of the contingencies set forth in Section 502(h) occur.

### **BACKGROUND**

1. Doris Glantz was a "customer" of Bernard L. Madoff Investment Securities, LLC ("BMIS"), as defined by the Securities Investor Protection Act of 1970 ("SIPA").

2. Doris Glantz died on October 21, 2005, and her BMIS account, Account No. 1ZW054, was eventually closed. Linda Berger, Doris Glantz's daughter, is a successor to a one-third interest in the account.

3. On or about December 15, 2005, Mrs. Berger was appointed as a Trustee for the Estate of Doris Glantz. *See* Notice of Trust, Florida Circuit Court, Palm Beach, Probate Division (Exhibit B).

4. On December 11, 2008, the above-captioned liquidation proceeding was commenced against BMIS, pursuant to SIPA. *See* Order, *Securities and Exchange Commission v. Madoff*, No. 08-10791 (S.D.N.Y. Dec. 15, 2008) (ordering relief under SIPA and transferring proceeding to the United States Bankruptcy Court for the Southern District of New York) [Dkt. No. 4]. Irving Picard was appointed Trustee ("BMIS Trustee"), charged with overseeing the liquidation of BMIS and processing customer claims for money pursuant to SIPA. *Id.*; 15 U.S.C. § 78fff-1(a).

5. On December 23, 2008, the Court issued an Order directing the Trustee to disseminate notice and claim forms to BMIS customers and setting forth claim-filing deadlines. *See* Order [Dkt. No. 12]. Upon information and belief, the BMIS Trustee disseminated notice and claim forms to BMIS's customers in accordance with the Court's Order.

6. The December 23, 2008 Order further provided that, to the extent the BMIS Trustee disagrees with the amount set forth on a customer claim form, the BMIS Trustee "shall notify such claimant by mail of his determination that the claim is disallowed, in whole or in part, *and the reason therefor . . .*" *See* Order at 6 (emphasis added) [Dkt. No. 12].

7. On February 25, 2009, the Court issued an Order providing that the claims deadline set by the Court in its December 23, 2008 Order is applicable to contingent claims filed pursuant to Section 502(h) of the Bankruptcy Code. *See*. Feb. 25, 2009 Order [Dkt. No. 125]; Memorandum Decision [Dkt. No. 124]. The Court's opinion accompanying the Order specifically authorized the filing of "protective proofs of claim." Memorandum Decision at 4 [Dkt. No. 124].

8. Section 502(h) provides that "[a] claim arising from the recovery of property under section 522, 550, or 553 of this title . . . shall be determined, and shall be allowed under subsection (a), (b), or (c) of this section, or disallowed under subsection (d) or (e) of this section, the same as if such claim had arisen before the date of the filing of the petition." 11 U.S.C. § 502(h).

9. On or about June 30, 2009, Linda Berger submitted to the BMIS Trustee a contingent customer claim form for the BMIS account of the late Doris Glantz, Acct. No 1ZW054 (Exhibit C) ("Glantz Contingent Customer Claim").

10. On October 19, 2009, the BMIS Trustee sent Mrs. Berger a Determination Letter disallowing the Glantz Contingent Customer Claim in its entirety. *See* Determination Letter (Exhibit A).

11. Mrs. Berger hereby objects to the Determination Letter for the reasons described below and to preserve all rights with regard to the Glantz Contingent Customer Claim in the event that any of the contingencies set forth in Section 502(h) of the Bankruptcy Code should occur.

### **GROUND FOR OBJECTION**

12. First Objection. The Determination Letter fails to comply with this Court's December 23, 2008 Order, which directs the BMIS Trustee to satisfy customer claims and deliver securities in accordance "with the Debtor's books and records." Dec. 23, 2008 Order at 5 [Dkt. No. 12]. In the event that any of the contingencies set forth in Section 502(h) take place, the best evidence of the proper amount of the Glantz Contingent Customer Claim is Doris Glantz's BMIS account statements.

13. Second Objection. The Trustee has set forth no legal basis for disallowing the Glantz Contingent Customer Claim. The only explanations set forth in the Determination Letter are that (1) "[n]o securities were ever purchased for your account," and (2) that "because you have withdrawn more than was deposited into your account, you do not have a positive 'net equity' in your account and you are not entitled to an allowed claim in the BLMIS liquidation proceeding." Determination Letter at 1-2 (Exhibit A). Neither of these purported grounds for disallowance have any statutory or other legal basis. Moreover, the Determination Letter:

(a) does not clearly provide "the reason" for the disallowance, as required by the Court's December 23, 2008 Order, *see* Order [Dkt. No. 12];

(b) is inadequate to rebut the prima facie validity of the Glantz Contingent Customer Claim as provided in Section 502(a) of the Bankruptcy Code and Fed. R. Bankr. P. 3001(f);

(c) violates general principles of applicable law requiring that an objection to a proof of claim set forth, at a minimum, the relevant facts and legal theories upon which the objection is based. *See, e.g.,* Collier on Bankruptcy ¶ 3007.01(3) (15th ed.) (“[A]n objection to a claim should . . . meet the [pleading] standards of an answer. It should make clear which facts are disputed; it should allege facts necessary to affirmative defenses; and it should describe the theoretical bases of those defenses.”); *In re Enron Corp.*, No. 01-16034, 2003 Bankr. LEXIS 2261, at \*25 (Bankr. S.D.N.Y. Jan. 13, 2003) (same); and

(d) is improper in that the Glantz Contingent Customer Claim is a contingent claim, filed pursuant to Section 502(h) of the Bankruptcy Code. As none of the contingencies set forth in Section 502(h) have occurred at this time, disallowance is improper.

14. Third Objection. 15 U.S.C. Section 78fff-2(b) provides that a customer’s claim shall be allowed in the amount of the customer’s “net equity.” 15 U.S.C. § 78fff-2(b). Upon information and belief, the Trustee objects to the Glantz Contingent Customer Claim on the ground that “net equity” should be determined by principal contributed to the account less any withdrawals, without regard to any gains reflected in the Final BMIS Statement or prior BMIS statements. *See* Determination Letter (Exhibit A); *see also* “Another View: Unwinding Madoff Fraud Fairly,” Deal Blog. NY times.com (May 6, 2009). This is incorrect for the following reasons:

(a) The Trustee’s construction of the statute ignores SIPA’s express language which defines “net equity” as

the dollar amount of the account or accounts of a customer, to be determined by --

(A) calculating the sum which would have been owed by the debtor to such customer if the debtor had liquidated, by sale or purchase on the filing date, all securities positions of such customer (other than customer name securities reclaimed by such customer); minus

(B) any indebtedness of such customer to the debtor on the filing date;

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15 U.S.C. § 78lll(11). The Trustee's proposed formulation has no support in the language of the statute or interpreting case law and in fact, adds words and concepts to the statute which do not exist.

(b) SIPA's legislative history emphasizes Congress' intention that the statute protect customer expectations by ensuring that customers of retail brokerage firms can rely on their account statements. The BMIS statements received by Doris Glantz stated that the account held various blue chip securities. It makes no difference whether the securities were purchased:

A customer generally expects to receive *what he believes* is in his account at the time the stockbroker ceases business. But because securities may have been lost, improperly hypothecated, misappropriated, *never purchased*, or even stolen, it is not always possible to provide to customers that which they expect to receive, that is, securities which they maintained in their brokerage account. . . . By seeking to make customer accounts whole and returning them to customers in the form they existed on the filing date, the amendments . . . would satisfy customers' legitimate expectations . . . .

S. Rep. No. 95-763, at \*2 (1978) (emphasis added). While there may be a basis to disallow customer claims for wholly fictitious securities of nonexistent entities, here the securities set forth in the Doris Glantz's BMIS account statements were those of actual companies listed on the stock exchange.

(c) The Trustee's "net equity" formula is an improper and wholly inadequate measure of loss. In *Visconsi v. Lehman Brothers, Inc.*, 244 Fed. Appx. 708 (6th Cir. 2007), the Court declined to set aside an arbitration award that appeared to have applied an expectancy measure of damages against a successor in a Ponzi scheme case, and rejected the "money in/money out" formula as not reflecting the expectations of the parties. The Court explained:

Lehman's out-of-pocket theory misapprehends the harm suffered by Plaintiffs and the facts of this case. Plaintiffs gave \$21 million to Gruttadauria [the dishonest broker], not to hide under a rock or lock in a safe, but for the express purpose of investment, with a hope -- indeed a reasonable expectation -- that it would grow. Thus, the out-of-pocket theory, which seeks to restore to Plaintiffs only the \$21 million they originally invested less their subsequent withdrawals, is a wholly inadequate measure of damages. Had Gruttadauria invested Plaintiffs' money as requested, their funds would like grown immensely, especially considering that Plaintiffs invested primarily throughout the mid-1990s, which, had they hired an honest broker . . . , would have placed their money in the stock market during one of the strongest markets in recent memory. In fact, the fictitious statements issued by Lehman, which were designed to track Plaintiffs' funds as if they had been properly invested, indicate that Plaintiffs' accounts would have grown to more than \$37.9 million (even accounting for the withdrawal of more than \$31.3 million). Plaintiffs thus could have reasonably believed that they were entitled to the full \$37.9 million balance shown, regardless of the amounts of their previous deposits and withdrawals.

*Visconsi*, 244 Fed. Appx. at 713-14 (emphasis added). This applies to the Glantz Contingent Customer Claim.

(d) The Trustee's Determination Letter is contrary to SIPC's own policies and practices, as reflected in the sworn testimony of Stephen Harbeck, SIPC's president and CEO, and its actions in similar liquidation proceedings. For example, in the *New Times* SIPA liquidation, in the context of discussing claims filing deadlines, Harbeck acknowledged that SIPC would replace securities listed on customer account statements, even if the securities had never been purchased:

Harbeck: [I]f you file within sixty days, you'll get the securities, without question. Whether -- if they triple in value, you'll get the securities. . . . Even if they're not there.

Court: Even if they're not there.

Harbeck: Correct.

Court: In other words, if the money was diverted, converted --

Harbeck: And the securities were never purchased.

Court. Okay.

Harbeck: And if those positions triple, we will gladly give the people their securities positions.

Transcript at 37-39, *In re New Times Securities Services, Inc.*, No. 00-8178 (Bankr. E.D.N.Y. July 28, 2000) (Exhibit D) (excerpt). The Second Circuit's discussion of SIPC's claims processing in *New Times* further indicates that, with respect to customers who thought they were invested in listed securities, SIPC paid customer claims based on the customers' final account statements, even where the securities had never been purchased:

Meanwhile, investors who were misled . . . to believe that they were investing in mutual funds that in reality existed were treated much more favorably. Although they were not actually invested in those real funds -- because Goren never executed the transactions - - the information that these claimants received on their account statements mirrored what would have happened had the given transaction been executed. As a result, the Trustee deemed those customers' claims to be "securities claims" eligible to receive up to \$500,000 in SIPC advances. The Trustee indicates that this disparate treatment was justified because he could purchase real, existing securities to satisfy such securities claims. Furthermore, the Trustee notes that, if they were checking on their mutual funds, the "securities claimants," . . . could have confirmed the existence of those funds and tracked the funds' performance against Goren's account statements.

*In re New Times Secs. Servs.*, 371 F.3d 68, 74 (2d Cir. 2004); *see also* Brief of Appellant SIPC at 23-24, *In re New Times Sec. Servs., Inc.*, No. 05-5527 (Dec. 30, 2005) (arguing that under SIPA "reasonable and legitimate claimant expectations on the filing date are controlling even where



inconsistent with transactional reality” such as when the customer receives a confirmation reflecting a purchase, “even where the purchase never actually incurred and the debtor instead converted the cash deposited by the claimant to fund that purchase”).<sup>1</sup> Doris Glantz was situated no differently from the “securities claimants” in *New Times* who thought they purchased bona fide securities. Accordingly, the Glantz Contingent Customer Claim should be recognized in full.

15. In the event that the Court should determine that claimed gains on deposited funds should not be allowed, then in the alternative, the Glantz Contingent Customer Claim is entitled to recover interest on such deposited amounts. Such interest is required as a matter of state law, and the United States Supreme Court has determined that in bankruptcy cases, creditor claims, including the right to interest, are determined by state law. *See Travelers Cas. & Sur. Co. of Am. v. PG&E*, 549 U.S. 443, 450-51 (2007) (“[W]e have long recognized that the ‘basic federal rule’ in bankruptcy is that state law governs the substance of claims, Congress having generally left the determination of property rights in the assets of a bankrupt’s estate to state law.”).

(a) Under New York law, which is applicable here, funds deposited with the Debtors under these circumstances are entitled to interest. *See, e.g.*, N.Y.C.P.L.R. § 5004; N.Y. Gen. Oblig. § 5-501, *et seq.* Accordingly, customer claims should be recalculated by adding interest to all funds deposited by customers such as Doris Glantz.

(b) Under New York law, which is applicable here, customers are entitled to prejudgment interest and any returns the Debtors earned on the deposited funds under principles of unjust enrichment. Accordingly, Customer claims should be recalculated by adding the

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<sup>1</sup> There are similar statements in S. Rep. No. 95-763, at 2 (1978) (SIPA seeks to make customers whole even if securities of customers are “lost ... misappropriated, never purchased or even stolen”); H.R. Rep. No. 95-746, at 21 (1977) (customer expects to receive what he believes is in his account even if securities were “never purchased”).

amounts earned by the debtors on deposits. *See, e.g., Steinberg v. Sherman*, No. 07-1001, 2008 U.S. Dist. LEXIS 35786, at \*14-15 (S.D.N.Y. May 2, 2008) (“Causes of action such as . . . conversion and unjust enrichment qualify for the recovery of prejudgment interest.”); *Eighteen Holding Corp. v. Drizin*, 701 N.Y.S.2d 427, 428 (1st Dep’t 2000) (awarding prejudgment interest on claims for unjust enrichment and conversion).

16. Fourth Objection. The BMIS Trustee’s action in reducing the amount shown on Glantz Contingent Customer Claim by any prior gains reflected in her BMIS account statements is an attempt to avoid such gains without alleging any grounds for avoidance or proving that such gains are avoidable under the Bankruptcy Code’s avoidance provisions. As such, any such disallowance is improper and unjustified, and the Determination Letter should be stricken. *See* Fed. R. Bankr. P. 7001(1); 7008.

17. Fifth Objection. The Trustee’s determination assumes that BMIS never earned funds and therefore all gains reported to customers were “fictitious.” This assumption is contrary to fact. There is significant evidence that, at some time, BMIS was at least in part a legitimate business and therefore all or a portion of the gains were not fictitious. The burden is on the Trustee to show that BMIS never earned any amounts to support customer gains and, if at some point it did earn funds, the dates when it ceased to do so. The Trustee is required to state and prove when the Ponzi scheme began.

18. Sixth Objection. Upon information and belief, Doris Glantz paid income taxes on earnings the Trustee alleges are fictitious. The Trustee has justified his proposed method of calculating claims as fair and reasonable because fictitious gains should not compete dollar for dollar with claims for funds actually deposited by customers, and his proposed method purportedly equalizes the treatment of all customers. This justification is not correct insofar as customers did not have the use of reported but fictitious gains because of required income tax

payments. Even assuming *arguendo* the Trustee's method is correct, the Trustee's determination of the Glantz Contingent Customer Claim should be adjusted by adding all amounts actually paid as income taxes on allegedly fictitious gains to equalize her treatment with that of other customers. *See SEC v. Byers*, No. 08-7104, 2009 U.S. Dist. LEXIS 63741, at \*11-13 (S.D.N.Y. 2009) (in equitable distribution proceeding, allowing claims for reinvestment of fictitious profits to equitably treat reinvesting customers as compared with customers receiving distributions).

19. Seventh Objection. The Determination Letter purports to calculate the "net equity" for the Glantz Contingent Customer Claim on the basis of certain withdrawal transactions for which no or incomplete records exist. It is unreasonable to anticipate that customers would maintain records of accounts for long periods of time given: (a) general limitations on record retention requirements under tax law and other applicable rules governing record retention; (b) the apparent safety and solvency of BMIS; (c) the fact that historical records such as those in question are usually available from financial institutions, including broker-dealers, upon request; and (d) the fact that Doris Glantz is deceased and her estate is closed. Under these circumstances, the Trustee should be required to prove that the alleged withdrawal transactions occurred by furnishing the appropriate records to the undersigned counsel and, absent such records, such transactions should be deleted from the calculation of Doris Glantz's "net equity." Likewise the Trustee should be required to prove that the deposit transactions are completely listed by furnishing the appropriate records to the undersigned counsel.

### **RELIEF REQUESTED**

20. In the event any of the contingencies set forth in Section 502(h) of the Bankruptcy Code should occur, the Glantz Contingent Customer Claim should be allowed in its entirety.

21. The BMIS Trustee's determination amounts to an improper disallowance of a contingent claim that has prima facie validity. *See Bankruptcy Code § 502(a) Bankr. R. 3001(f).*

The BMIS Trustee has offered no factual or legal basis for his Determination. The BMIS Trustee's Determination Letter, and the objections contained therein, should be stricken, or alternatively, the BMIS Trustee should describe his position in detail including all relevant facts, legal theories, and authorities. Upon the filing of such a statement, this matter will be a contested proceeding under Rule 9014, to which a response will be filed.

22. Mrs. Berger, in her individual capacity and as successor to a one-third interest in the account of Doris Glantz (Acct. No. 1ZW054), deceased, requests such other relief as may be just and equitable.

### **CONCLUSION**

23. Mrs. Berger reserves the right to revise, supplement, or amend this Objection, and any failure to object on a particular ground or grounds shall not be construed as a waiver of the right to object on any additional grounds.

24. Mrs. Berger reserves all rights set forth Rule 9014, including, without limitation, rights of discovery. *See* Fed. R. Bankr. P. 9014.

25. Mrs. Berger reserves all objections as to the competence, relevance, materiality, privilege, or admissibility of evidence in any subsequent proceeding or trial of this or any other action for any purpose whatsoever.

26. Mrs. Berger incorporates by reference all reservations of rights set forth in the Glantz Contingent Customer Claim.

Dated: November 18, 2009

s/ Jonathan M. Landers  
MILBERG LLP  
Jonathan M. Landers  
Matthew Gluck  
Brad N. Friedman  
Sanford P. Dumain  
Jennifer L. Young  
One Pennsylvania Plaza, 48th Fl.  
New York, NY 10119  
Telephone: (212) 594-5300  
Facsimile: (212) 868-1229

SEEGER WEISS LLP  
Stephen A. Weiss  
Christopher M. Van de Kieft  
Parvin Aminolroaya  
One William Street  
New York, NY 10004  
Telephone: (212) 584-0700  
Facsimile: (212) 584-0799

*Attorneys for Linda Berger*